RB
RESTAURANT BUSINESS
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Cover photograph by Jay Grant

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SPECIAL FEATURE **FOOD COURT WOES.** January is typically the slowest month for customer traffic at department and retail stores. With retail's biggest season over, how are food court and mall operators going to cope? Both chain and independent operators tell *RB* their strategies to bring patrons in and beef up first quarter '92 sales.

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SUB & SANDWICH

MARKET SEGMENT REPORT

Low start-up costs are driving expansion.

By Carol Casper

Sandwiches are perceived as a light, healthy, and fresh alternative to traditional fast food. "Other chains are spending millions of dollars to reposition toward new eating patterns. But, we're sitting where the market is going, and all the media attention on nutrition is driving people to us," comments Rick Schaden, president of Quizno's Classic Subs, Denver.

Sandwiches are also versatile, enabling operators to offer variety without sacrificing identity or putting a strain on operations. "You can put anything between two pieces of bread," points out Anthony Conza, president of Blimpie Subs and Salads, New York City.

The phenomenal growth of the Milford, CT-based Subway chain is another key factor that has helped drive expansion of the segment as a whole in the last few years. "There is no doubt that Subway has blazed trails," David Kilby, vice president, franchise development, for Cousin's Submarines, Menomenee Falls, WI, acknowledges. "What McDonald's did for hamburgers, and Pizza Hut and Domino's did for pizza, Subway has done for sub sandwiches. It's created awareness for a segment that wasn't there previously."

Rax is repositioning itself as a "main-line fast-food chain offering sandwiches." Rax introduced two sandwiches this year, including a sirloin cheesesteak.

"There is certainly a lot more activity in the category than when we started," Fred DeLuca, president of Subway Sandwiches & Salads, agrees. "There are probably twice as many companies offering sub franchises as there were five years ago." In terms of sheer number of units, however, other chains have yet to make a dent in Subway's dominance. Subway's 4,800 U.S. units accounted for 70% of all sub chain stores in the nation at the end of 1990, and almost half the total number of sub shops including independents. Subway's addition of over 1,000 domestic units in 1991 pushes it even farther in front.

Representing 3% of all U.S. restaurants accord-

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ing to RE-COUNT statistics from the Restaurant Consulting Group, Evanston, IL, the sub shop category is still small compared to other fast-food segments. However, because of its small base, it is probably the fastest-growing menu category. From 1987 to 1990, the number of sub sandwich places grew 60%, compared to a 30% increase in Oriental restaurants and 20% growth in pizza operations over the same period.

Another factor contributing to the fast growth of sub shops is their generally low start-up and operating costs compared to most other fast-food enterprises. Some franchises promise start-up packages as low as $40,000 to $70,000, including a franchise fee. Many fall below $150,000.

On the other hand, sub and sandwich places' annual sales are typically lower than those of other fast-food restaurants. Subway's U.S. units average just under $260,000 annual volume, DeLuca says. Yearly volumes over $500,000 are considered high for the segment.

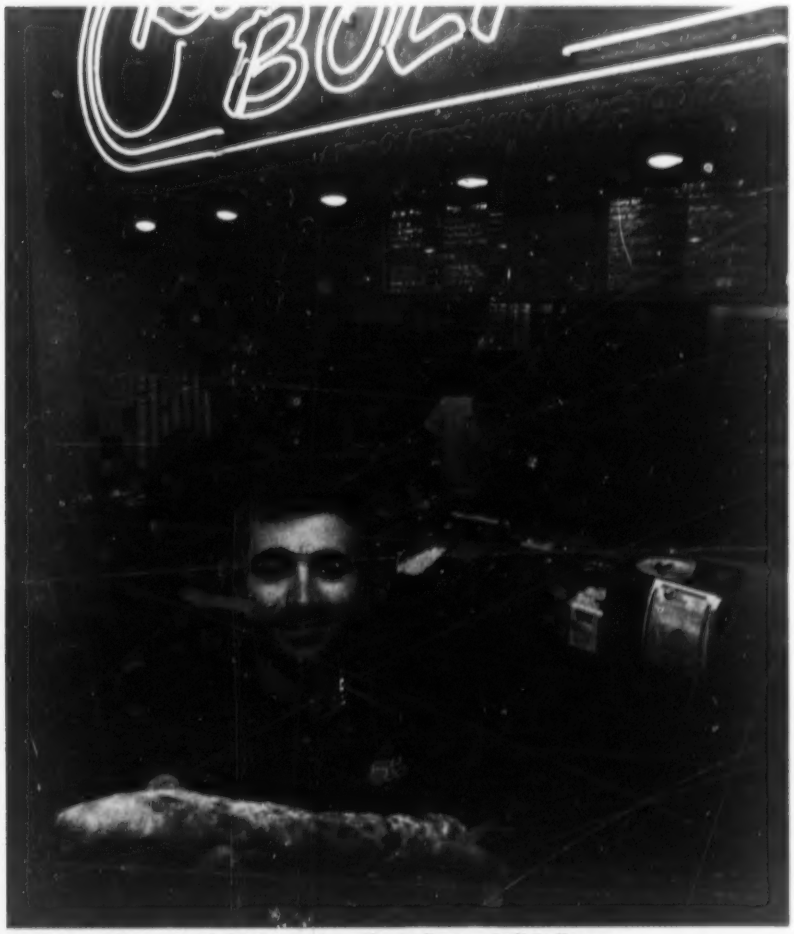
SALES STRATEGIES. To boost store sales, a number of companies are looking at opportunities outside their normal lunchtime stronghold. Some are beefing up the hot portion of their menus to draw more dinner business. Others are experimenting with breakfast. Several chains are putting an emphasis on marketing extra services such as catering.

There is also a trend toward upscaling. A number of chains are moving away from the perception of the sub shop as a provider of inexpensive lunches for working people and students. Instead, they are cultivating identities as delis or family restaurants by expanding menus, putting more emphasis on decor, and offering extras.

Subway is focusing on the basics in its operations, while continuing to grow by leaps and bounds. The chain will end the year with nearly 6,200 units including 300 outside the U.S. In 1992, the sandwich giant plans to add another 1,000 outlets.

Putting the numbers in perspective, DeLuca points out that just five years ago Subway operated fewer than 1,000 stores. "We are now the third largest chain in the U.S. in terms of units," he claims. "But even back when we had 200 stores in 1982, we always had the vision of a large chain. We just got there faster than we expected."

Subway's annual sales in 1991 will top $1.4 billion, including $55 million from units outside the States. Next year Subway plans to step up overseas development, adding Japan, Holland, Spain, Portugal, and Ireland to its international markets, which presently include Canada, the Caribbean, Mexico, Guam, Korea, Australia, and Bahrain. Still, 900 openings in '92 are slated for the U.S.



Anthony Felicetta with his invention, The Boli, at a Roli Boli store.

Subway gave franchisees the option of adding two sandwiches catering to local tastes this year. Most took advantage of the opportunity, resulting in some unusual items like caribou in Alaska and a lamb sandwich in Bahrain.

Looking to the future, DeLuca says, "We're doing the same things other companies are doing to gain incremen-

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tal sales: a lot of work on hot sandwiches for evening business, and breakfast." About 8% of U.S. units now serve breakfast, compared to 6% a year ago. "That could grow to 25% in five years, but breakfast will never be a major portion of our business," says DeLuca.

He expects value pricing will continue to exert a strong impact on the fast-food market, with the sandwich segment no exception. Subway's own value initiatives this year included a $1.69 6-in. sandwich promotion, which "lowered the price of admission," and a limited-term "Buy One Get One Free" deal. Next year the company plans to introduce a 79¢ round sandwich that could become a permanent addition.

BURGER ALTERNATIVE. While Subway captures headlines with its mushrooming growth, veteran Arby's Restaurants has held its own as the overall sandwich category leader (excepting hamburger chains) by positioning itself squarely as an alternative to burgers. "We target heavy fast-food users aged 18 to 24 as our primary market. Those are the people who have burned out on burgers," notes Lloyd Fritzmeier, president of Arby's Franchise Association, Atlanta, the chain's marketing arm.

To strengthen its position as the hamburger alternative, Arby's has been adding more variety to its core roast beef menu. Last April, it introduced two grilled chicken sandwiches, and in August it went national with a three-item light menu featuring roast beef, roast chicken, and roast turkey. All are served on a multi-grain bun with light mayonnaise, lettuce, and tomato. The light menu and grilled chicken sandwiches each now account for some 8% to 12% of sales.

The chain has generally tried to avoid the value-pricing competition, focusing instead on its twin themes of quality and variety. However, Arby's does offer a line of "99ers"—smaller sandwiches sold for 99¢.

The segment is also competing with value menus.

The Steak Escape broadened its menu with the new GRANDest Chicken Sandwich.

Among its successful campaigns last year was a Quality Guarantee, communicated through TV and print ads, which promised customers "satisfaction or their money back." The program increased traffic and overall sales, Fritzmeier reports. In 1992, Arby's will launch a new campaign highlighting its positioning as "a delicious change from burgers." The chain will also be testing sub sandwiches.

Arby's has over 2,500 stores, including 120 outside the U.S. Like Subway, the chain is stepping up international expansion, Gaylon Smith, senior vice president of the franchise group, at Arby's new Miami headquarters, notes.

"This fall we signed an 18-store deal in Holland, a 50-unit agreement in the U.K., plus several Caribbean development agreements. We've also signed a master franchisee in Mexico who will open 20 to 30 stores in the next 18 months." Domestically, the company has been adding an average of 220 stores per year for the last few years and will continue that rate in 1992. Arby's has maintained a ratio of 10% company-owned to franchise stores, but plans to increase its company base to 20%-25% in the next few years. Domestic stores average $625,000 annual sales. For 1991, Arby's worldwide sales will top $1.5 billion.

After the two titans, Arby's and Subway, the size of the leading sandwich chains drops off precipitously.

ROAST BEEF. Rax Restaurants, Dublin, OH, has maintained its No. 3 position despite closing nearly 90 units in the last 12 months. The chain now operates 361 restaurants, 70% of which are franchised. Chainwide sales in 1990 fell just short of $300 million.

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In recent years, Rax sought to reposition itself as more of a "main-line fast-food operation offering sandwiches," one executive commented last year.

At the moment, however, future marketing and expansion plans are unclear. The chain did add two new sandwiches to its menu in 1991: a sirloin cheesesteak and a chicken fajita.

With well under one-tenth as many units and a little under one-tenth its sales volume, Blimpie trails Subway as the nation's No. 2 sub sandwich chain.

Thanks to Subway's success in introducing the sub to "fast food-eating middle America," Blimpie hopes, however, to tighten the gap a bit through an accelerated expansion program of area development agreements.

Blimpie added 100 units in 1991 for a total of 500, and plans to have 1,000 open by 1995. In the past three years, it has built its organization from 12 to 50 area developers with subfranchising rights in 28 states.

Blimpie's other major move has been a switch to fresh bread baked on premise. About 25% of existing stores and all new sites now feature it.

The in-store ovens also allow the shops to offer freshly baked cookies and breakfast goods. While Blimpie has long served a ham and egg breakfast hero in New York, the product was dropped as it moved into other areas. Now, however, the chain is considering re-implementing it along with other breakfast items. Another departure for the chain, says Conza, was its addition of a "Lite" line of low-calorie sandwiches in pita bread.

Blimpie also introduced a value menu this fall following six months of testing. It consists of three "Quik Bite" sandwiches: a mini-Blimpie or veggie and cheese pita pocket for 99¢, and a new BLT for $1.59.

The chain also debuted a new store design in 1991, featuring brighter colors and a more contemporary look. Blimpie's units average just under $300,000 in annual sales, with checks averaging $3.60. Chainwide sales will top $127 million this year.

Also on the move is Austin, TX-based Schlotzsky's Inc., which has repositioned and launched an aggressive new expansion plan. "We're moving the concept away from fast food and more into the midscale or deli segment," Kelly Arnold, national sales manager, explains. "We're expanding the menu from seven to 13 sandwiches, extending pizza from evening only to all-day service, beefing up salad and dessert lines, and increasing portion sizes."

MUFFULETTA. Last year Schlotzsky's hired New Orleans-trained chef Michael Dyer to develop the new menu. It still features Schlotzsky's "Original," a distinctive sandwich based on the New Orleans Muffuletta. New items include hot deli sandwiches like smoked brisket BBQ, a section of light sandwiches like Dijon chicken breast and Cajun seafood & crab salad, and chef salads featuring smoked turkey or grilled chicken. An 8-in. personal pizza was developed using Schlotzsky's proprietary bread recipe for the crust.

Consumers see sandwiches as a healthy choice.

With the new menu comes a new name: The Original Schlotzsky's Deli. A prototype has open deli cases, meats, cheeses, garlic bunches and peppers hanging from the ceiling, and butcher

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Pictured is an artist's rendering of Schlotzsky's new restaurant design.

block tables and counters. The first of these units was scheduled to open late last month. In the interim, the company has been testing the menu in an existing unit, and will begin phasing it into existing franchises early next year.

Meanwhile, the franchise operation has designated 75 regional territories in the U.S. to be developed by subfranchisors. Since it launched the program in August, more than a dozen area developers have been signed and more are in process. At least 50 units are expected to open next year. Currently Schlotzsky's system totals close to 250 units. Sales for 1991 should top $62 million.

TARGETED EXPANSION. Another chain that is stepping up expansion, albeit on a smaller scale, is Cousin's Submarines. Cousin's opened a dozen stores in 1991 for a total of 61 at year's end. Nearly 40 more are under development. "We've targeted 15 openings in 1992 but if financing sources open up we are capable of doubling that number," says Kilby, who came to Cousin's in 1989 from Domino's. Franchised units now account for about one-third of stores.

Cousin's growth efforts are now focused in several states outside its Wisconsin base. It acquired and converted a four-store chain in Minneapolis this summer, sold a 10-store development agreement in Chicago, and plans to open up in Indiana and Iowa next year.

The company debuted its first food court operation in August, in a discount "mega mall" in Gurnee, IL. Due to the center's size, Kilby notes, the site should do substantially more volume than Cousin's full-size stores, which average close to $500,000 annually.

Early stores measured 2,000 to 2,200 sq. ft. with close to 60 seats, but recent openings have been downsized to 1,500 to 1,600 sq. ft. and 46 to 48 seats to trim costs. The stores do 60% to 70% of sales in take-out overall, and wherever possible incorporate drive-thru windows.

Menu additions aim at enlarging dinner business.

Evening sales are on the rise, Kilby adds, with some stores trending toward a 60/40 or even 50/50 ratio of lunch to dinner business. The chain's wide menu, featuring a high proportion of grilled and other hot sandwiches, boosts night-time traffic. New products this year include an Italian link sausage sub, grilled chicken breast, and seafood and crab summer sandwich, as well as chili. Cousin's answer to value pricing is a new Mambo Combo feature: 4-in. mini-subs with turkey, meatball, seafood, or ham, served with a soda and regular fries for $1.89.

In 1992, Cousin's will celebrate its 20th anniversary with a move into a new headquarters that includes an expanded central bakery. Most stores are supplied by the company bakery, but 10 outlying units bake in-store and more will follow as the system continues to expand geographically.

D'Angelo's Sandwich Shops, W. Bridgewater, MA, is another chain whose franchising plans have been partly stymied by the tepid economy. In contrast to the many sandwich chains that function primarily as franchisors, D'Angelo's had focused almost exclusively on company operations until last year, except for 32 units franchised to former employees and associates. In late 1990, the company launched its first major franchising drive, designed to boost growth outside its Northeast stronghold. By October, 1991, only two new franchised units had opened, in Kissimmee, FL, and Kansas City, MO. Several others are in the works, according to Roy Jemison, vice president and general manager.

While waiting for franchising to gather momentum, D'Angelo's has accelerated new company store development to take advantage of low real estate costs. It will have opened about a dozen units by year's end, for a total of nearly 165 stores.

D'Angelo's shops are large for the segment, running 2,000 to 2,400 sq. ft., with 50 to 70 seats. Annual unit volumes average from $550,000 to $600,000, but new stores, opening mainly in densely populated areas, tend to run even higher, Jemison says. The menu features wider variety than many

sandwich chains, including a large number of grilled items among its hot and cold subs and pita "pokkets."

In March, the company rolled out a Healthy D'Lites menu. It features nine sandwiches and four entree salads plus frozen yogurt desserts. The sandwiches include a chicken stir-fry pokket with peppers, mushrooms, and onions, several steak sandwiches, roast beef, and turkey, plus a lite version of its popular vegetarian pokket. Virtually all of D'Angelo's stores also offer Chips ice cream and frozen yogurt at a separate counter. Recently, D'Angelo's began testing personal pizzas and breakfast.

Another chain that has been stepping up expansion to take advantage of the soft real estate market is Togo's Eatery, operated by M.T.C. Management Inc. in Campbell, CA. It opened a dozen stores in 1991, for a total of 146, and plans 12 to 15 more in 1992. Most of Togo's present stores as well as expansion plans for next year are concentrated in California, making it a major factor in that state. The company also has a handful of units in Oregon, Texas, Colorado, and Nevada, and expects to shift more growth to these states in coming years. Just eight units are company-owned.

The menu includes over 30 hot and cold sandwiches, plus salads, fresh soups of the day, and homemade chili. "We're trying to get more dinner business with new menu items, point-of-purchase materials, and advertising," president and CEO Mike Cobler notes. "Just as pizza operations are guaranteeing 5-minute pizzas to attract lunch business, we're trying to convince customers that sandwiches are a viable option for dinner, and we've had some success."

The chain's handsomely printed menu features a list of catering selections. The menu also includes recommended choices for kids and a note that sandwiches can be cut into kid-sized pieces.

Togo's stores average $450,000 annual volume. Systemwide sales will reach about $67 million this year. "We're positioned a little more upscale than most of the segment," Cobler says. It shows in product quality, marketing materials, and decor, which includes touches like Italian tile, marble, and oak.

While Togo's Eatery has occupied its upscale niche for years, a growing number of other sandwich chains are now aiming for the same territory.

UPSCALE DELI. Quizno's Classic Subs conjures up the image of an upscale Italian deli/market rather than a sub shop, for example, says president and CEO Schaden. This tone is conveyed through features like under-counter display cases stocked with an assortment of chef's salads, bottled beverages, and desserts. Shelves over the back preparation counter are decorated with large, colorful jars of sauces. The decor also features Italian tile floors, colorful checkered tile accents on the walls, and rich wooden paneling.

The 20-unit chain's menu includes traditional subs done Quizno's style, such as roast beef with mushrooms, sautéed peppers and onions, "drenched in au jus," and a club sub of lean smoked ham and turkey breast. Its veggie sub is made of guacamole, black olives, Bermuda onions, tomatoes, mushrooms, cheddar, and mozzarella cheese. There are also entree salads and a line of eight light sandwiches and salads that meet Denver's HealthMark guidelines for low-fat, low-cholesterol meals. The average check is $5.

Breakfast is another avenue of expansion.

In the last year, the company has added pasta in an attempt to gain more evening and weekend business. It is now working on a family-size bucket of pasta for dinner take-out and some new products designed specifically for kids.

The 10-year-old chain has mounted a new growth drive since franchisee Schaden and his father acquired the franchise corporation early this year. They have created new support systems and marketing and advertising initiatives. Their plan is to grow to 130 stores in five years, with development focused first in the Midwest and Florida, Colorado, and California.

Another chain giving subs a new upscale image is Miami Subs, Fort Lauderdale, FL. Despite its name, hot and cold subs actually make up only 40% of sales, notes president Ron Petty. Other popular items include gourmet burgers, gyros, chicken and shrimp platters, and signature desserts like baklava and Key lime pie. The restaurants also serve beer and wine, including Champagne.

"We're something of an enigma," says Petty, describing the chain's positioning. "We have a broad menu and everything is cooked to order, so the quality compares with table-service restaurants, but we also offer speed." Drive-thru accounts for 35% of volume.

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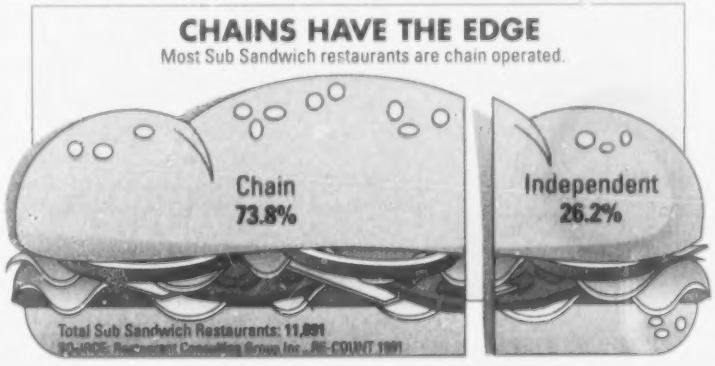

SUB & SANDWICH

MARKET SEGMENT REPORT

Another 15% is take-out. Checks average $5.50 and annual unit volumes are nearly $1 million.

The majority of the chain's 80-odd units, all but five of which are franchised, are located throughout Florida. In the last year, Miami Subs has made inroads in the Midwest and up the East Coast. Systemwide sales this year will approach $60 million.

To keep start-up costs down, the chain specializes in conversion properties that are given new life with bright lights and colors, and hand-painted interior murals. "With all the consolidation, there's a lot of real estate on the market, so it's a good time to grow," Petty notes. "In many cases, we've been able to double and triple the volume of previous occupants."

NEW AND IMPROVED. Port Of Subs, Reno, NV, presents a more conventional version of the "new, improved" sub shop. It is positioned as a neighborhood sandwich shop, according to president Pat Larsen. Preferred locations are community shopping centers.

Port Of Subs' 28 sandwich varieties are offered in three standard sizes, 5 in., 8 in., and 12 in. A new 24-in., extra large sandwich is also available alone or in a special family pack with four small beverages and four bags of chips for $11.95. The package was designed to meet family dinner needs, and has "gone over tremendously," Larsen says. Other family-oriented specialties include children's meals. Packaged in custom-made ship-shaped boxes, they come with coloring books and other premiums featuring the chain's own Captain character and his friend "Subby the submarine."

The stores bake their own breads, and this year added a new pastry line of muffins, cinnamon rolls, and strudels.

In addition to in-store sales, the parties have boosted off-premise catering. "We'd like to build catering to 10% of sales," says Larsen.

Port Of Subs' 64 units, mostly franchised, are located in Nevada, California, Arizona, and Washington. The company hopes to open one unit per month next year. Annual unit sales range from $250,000 to nearly $500,000.

Seawest Subs, Bellevue, WA, which operates The Sub Shop franchise system, has also begun helping its operators market party trays more actively by providing marketing materials and support. In-store, the chain has been featuring soup and sandwich combos, notes president Mitchell Day.

Runza Restaurants' Runza (rt.) is an ethnic variation.

Seawest's system in-cludes 104 units in 14 states. The company plans to add 40 to 50 new units in 1992. Stores are compact, measuring just 800 to 1,100 sq. ft., and concentrate on take-out.

CHEESESTEAKS. A growing genre is chains that specialize in Philly cheesesteak sandwiches. Great Steak & Fry Co., owned by Nicar Management, Hamilton, OH, is among the leaders, with 104 stores in 38 states and Canada. It is expanding at a rate of 15 to 20 units a year. Most are in food courts in malls and mixed-use complexes.

In addition to cheesesteaks, the chain offers grilled ham, turkey, and chicken versions, vegetarian sandwiches, entree salads topped with hot stir-fried steak, chicken, turkey, or ham, and fresh-cut fries. It is also extending a breakfast menu of omelet sandwiches to a number of units, mainly in downtown office locations. In 1992, president Nick Lanni says, the chain will rotate several banner specials such as a Cordon Bleu Philadelphia made with stir-fried turkey and ham topped with melted Swiss.

Checks average $4 and annual store volumes run about $450,000. Systemwide sales for 1991 will hit $35 million. The company is also starting to combine some units with another concept it owns, Potato King, which features baked potatoes.

Steak Escape, Columbus, OH, does about the same volume with 82 units in 24 states, plus three in Japan. It expects to open 20 stores in 1992. Steak Escape features a menu similar to Great Steak & Fry, including a grilled chicken sandwich introduced this year. Steak Escape also added "Sizzling Salads" to the menus of new stores.

All stores are in food courts, but the company is researching other locations, notes director of marketing Carm

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Sandwiches have the advantage of great variety.

Bonaventura. One of its key marketing programs is focused on mall employees. "We provide a Mall Association Appreciation Card, which gives mall employees intensive discounts."

The latest entry in the cheesesteak sweepstakes is Charley's Steakery, owned by Gosh Enterprises, Columbus, OH. President and CEO Charley Shin opened his first unit in 1986 while a junior at Ohio State University. After adding four more, he began franchising the concept. Five franchised units will open by March of 1992, and Shin hopes to double the numbers yearly.

One is also scheduled to open at Pittsburgh's airport next fall. The look of the units is upscale, with a lot of oak, brass, and colorful tile, and large, glossy product photos. In addition to the traditional Philly cheesesteak, it features Italian, Mexican, and Oriental steak and chicken versions.

Although the menu at Gaithersburg, MD-based Jerry's Subs & Pizza is considerably broader, Philly cheesesteaks are also the lunchtime mainstay for this combination chain. "In January 1990, we began promoting a Philly double cheesesteak, adding American cheese to our regular provolone," says director of marketing Dana Siller. "Based on its popularity, we've since presented a rotating line of steak sandwiches." They include bacon-Monterey double cheese, bacon-muenster double cheese, and a triple cheesesteak with Swiss.

Jerry's menu includes a full complement of other sub sandwiches such as meatball and cheese, chicken filet, and Italian cold cuts. The chain also recently introduced a "Cheap Thrills" program: a choice of one of three sandwiches with fries and drink for $3.99. At dinner time, pizza takes over as the main attraction. "We really have two different dayparts," Siller says.

Jerry's operates 78 units and expects to open about a dozen in 1992. Average annual sales are $569,000.

ETHNIC VARIATIONS. Ethnic foods also make for some interesting sandwich opportunities. Runza Restaurants, Lincoln, NE, has built its success on the registered trademarked "Runza." A Runza is a blend of ground beef, cabbage, onions, and spices baked inside homemade bread, which originated in Eastern Europe. The Brening family brought the recipe with them to Nebraska in the late 1800s, and descendant Sally Everett used it when she opened a restaurant with her brother and brother-in-law in 1949. Under the leadership of her son, Donald Everett, the restaurant developed into a regional chain, which offers the original Runza plus cheese and Italian varieties, as well as other sandwiches.

From 1987 to '90 sub sandwich units grew 60%.

Runzas are best known in Nebraska, but their popularity is spreading with the chain's expansion into other states including Iowa, Kansas, Colorado, and Illinois. It operates 21 company-owned stores and 37 franchised, according to spokeswoman Renee Moyse.

A more recent entry on the scene is the "Roli," created by Italian-born Anthony Felicetta. He describes it as a lighter cross between an Italian calzone and stromboli sandwich. The rolled, closed sandwiches are made of French bread dough, filled with a variety of fresh ingredients. Felicetta opened his first Roli Boli store in 1987, making Bolis with ingredients like lobster, artichoke hearts, vegetables, sausage, meatballs, and cheeses. The sandwiches cost between $3.50 and $5.50.

He began franchising in March 1990. Roli Boli Enterprises, Sayreville, NJ, has since grown to over a dozen units and Felicetta expects to nearly double that number next year. In addition to its New Jersey base, the chain now has stores contracted in Connecticut, Massachusetts, Florida, North Carolina, and California.

The success of ethnic variations speaks well of sandwiches' versatility. That factor, combined with the product's health and nutrition associations and unit's relatively low start-up costs, bodes well for continued rapid expansion of the sandwich segment. **RB**

Quizno's Classic Subs has the decor of an upscale Italian deli.